Governor's Tax Bill

March 17, 2014

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 3122 (Lenczewski) / S.F. 2693 (Skoe)

	Fund Impact			
	F.Y. 2014	**F.Y. 2015**	**F.Y. 2016**	**F.Y. 2017**
		(000's)		
Federal Update				
Individual Income Tax	($52,670)	($170,325)	($136,880)	($143,205)
Corporate Franchise Tax	($4,055)	($545)	($425)	($380)
Subtotal: Federal Update	($56,725)	($170,870)	($137,305)	($143,585)
Individual Income Tax				
Child and Dependent Care Credit Equal to Federal Credit and Refundable (1/1/14)	$0	($73,600)	($77,400)	($81,300)
Extension and Increased Allocation for the Angel Investment Credit (1/1/14)	$0	($15,000)	($15,000)	($15,000)
Subtotal: Individual Income Tax	$0	($88,600)	($92,400)	($96,300)
Estate and Gift Taxes				
Increase Estate Tax Exemption from $1 Million to $2 Million, Phased In; Rate Changes (1/1/14)	$0	($25,000)	($47,800)	($63,800)
Repeal Gift Tax (7/1/13)	($5,600)	($12,100)	($14,500)	($18,200)
Subtotal: Estate and Gift Taxes	($5,600)	($37,100)	($62,300)	($82,000)
Sales and Use Tax				
Repeal Tax on Business Purchases (4/1/14)				
Electronic and Commercial Equipment Repair, Maintenance	($12,900)	($81,700)	($88,000)	($94,700)
Warehousing and Storage Services	($13,000)	($82,400)	($88,800)	($95,600)
Telecommunications Equipment	($5,500)	($36,200)	($39,500)	($42,700)
Expand Local Government Exemption (7/1/14)	$0	($24,700)	($27,400)	($27,800)
Increase Fundraising Exemption for Youth and Senior Citizen Groups (7/1/14)	$0	($170)	($170)	($170)
Subtotal: Sales and Use Tax	($31,400)	($225,170)	($243,870)	($260,970)
Appropriation to the Department of Revenue	($1,101)	$0	$0	$0
General Fund Total	($94,826)	($521,740)	($535,875)	($582,855)

	Fund Impact			
	F.Y. 2014	F.Y. 2015	F.Y. 2016	F.Y. 2017
	(000's)			
Natural Resources and Arts Funds				
Repeal Sales Tax on Business Purchases				
Electronic and Commercial Equipment Repair, Maintenance	($700)	($4,700)	($5,100)	($5,500)
Warehousing and Storage Services	($700)	($4,800)	($5,100)	($5,500)
Telecommunications Equipment	($300)	($2,100)	($2,300)	($2,500)
Expand Local Government Exemption	$0	($1,400)	($1,600)	($1,600)
Increase Fundraising Exemption for Youth and Senior Citizen Groups	$0	($10)	($10)	($10)
Natural Resources and Arts Funds Total	($1,700)	($13,010)	($14,110)	($15,110)
Total – All Funds	($96,526)	($534,750)	($549,985)	($597,965)

EXPLANATION OF THE BILL

A summary prepared by the Appeals and Legal Services Division of the Department of Revenue is attached.

REVENUE ANALYSIS DETAIL

Federal Update

A table is attached which lists the provisions that would be adopted and includes the years affected and the revenue impact of each item. The estimates for updating to the federal changes in the child and dependent care credit are included with the estimates for making the credit equal to the federal credit.

- The House Income Tax Simulation Model was used for several provisions: the increased standard deduction for married filers; the increased income thresholds for the limitation on itemized deductions and the phaseout of personal exemptions; and, for the working family credit, the higher phaseout range for married-joint returns. The estimates are consistent with the February 2014 state revenue forecast.
- For other provisions, the estimates are based on the estimates for the federal legislation prepared by the staff of the Joint Committee on Taxation, dated January 1, 2013.
- Where applicable, the estimates were divided between the individual income tax and corporate franchise tax. The estimates for each provision were apportioned to Minnesota based on information relevant to that provision. The estimates were adjusted for the difference between federal and state tax rates and federal and state fiscal years.
- For tax year 2013 provisions, the fiscal year estimates assume enactment early in the legislative session. If enactment occurs at the end of the session, some or all of the FY 2014 impact would shift to FY 2015.

REVENUE ANALYSIS DETAIL (Cont.)

Child and Dependent Care Credit Equal to Federal Credit and Refundable

- The 2011 Income Tax Sample and the House Income Tax Simulation (HITS 6.2) Model were used to estimate the tax year revenue impact. These simulations assume the same economic conditions used by Minnesota Management and Budget for the forecast published in February 2014. The model uses a stratified sample of 2011 individual income tax returns compiled by the Minnesota Department of Revenue.
- Tax year impact would be reflected in the following fiscal year.
- The number of credit claimants is estimated to increase from 35,700 to 175,200 in tax year 2014.

Extension and Increased Allocation for the Angel Investment Credit

- It is assumed that the maximum $15 million in credits would be approved for each tax year.
- Tax year impact was allocated to the following fiscal year.

Increase Estate Tax Exemption from $1 Million to $2 Million, Phased In, Rate Changes; Repeal Gift Tax

- A database of estate tax returns filed in 2012 and 2013 was created and used for this analysis.
- Because the estate tax statutes were changed during the 2013 legislative session, the estate taxes for returns in the database were recalculated to reflect those 2013 changes.
- The proposed tax rates were then used to recalculate the estate taxes for the returns in the database.
- Fifty percent of adjusted taxable gifts (which is the estimate used for the portion made within three years of death) were included in the taxable estate.
- For the various exclusion amounts with the various proposed rates, the total estate tax for returns in the database decreased by the following percentages:
    - Calendar year 2014 deaths – 16.8%
    - Calendar year 2015 deaths – 24.0%
    - Calendar year 2016 deaths – 29.0%
    - Calendar year 2017 deaths – 32.7%
    - Calendar year 2018 and later deaths – 36.9%

  These percentage changes were applied to the estate tax estimates in the February 2014 estate tax forecast.
- The impact for the repeal of the gift tax was taken from the February 2014 gift tax forecast.
- It is assumed that the estate tax is paid nine months after the death of the deceased.

Repeal Sales Tax on Business Purchases

- The estimates are based on the Minnesota Consumption Tax Model and analysis completed for the 2013 legislative session.
- The estimates assume that all refunds for previously paid sales and use taxes would be paid in fiscal year 2014. If the bill is enacted before April 1, 2014, the tax on warehousing and storage services would not go into effect.

REVENUE ANALYSIS DETAIL (Cont.)

Expand Sales Tax Exemption for Local Governments

- The estimates are based on the two most recent State Auditor reports for special districts. The figures were averaged to arrive at state fiscal year 2012 totals.
- Taxable portions of the categories "current expenses", "current operation", and "capital outlay" were estimated and multiplied by the 6.875% state sales tax rate.
- The base-year estimates were increased annually through fiscal year 2017 by the historical and projected growth in state and local government spending, excluding wages and salaries, according to data from Global Insights, Inc.
- The estimate for fiscal year 2015 was adjusted for an effective date of July 1, 2014, with eleven months of impact in the first year.

Increase Sales Tax Fundraising Exemption for Youth and Senior Citizen Groups

- It is estimated that only a small portion of fund-raising sales by youth groups and senior citizen groups would be affected by the proposal because the change would apply only if the sales are not: nontaxable items, such as Girl Scout cookies; candy; tangible personal property at events not exceeding 24 days; or under $10,000 annually.
- Based on data from the Minnesota Department of Education, it is estimated that there are approximately 600 public and private secondary schools in fiscal year 2011.
- It is estimated that there are an average of two youth groups per school and that 10% of the groups make sales that would qualify for exemption under the proposal.
- It is estimated that the average annual sales at issue are $17,500 per group.
- The annual total was multiplied by the 6.875% sales tax rate and increased by 10% to account for sales made by youth groups not connected with schools and by senior citizen groups.
- Growth to fiscal year 2017 was the annual consumer prices index published by IHS Global Insight, Inc.

Sales Tax Exemption for Certain Presentations Accessed Digitally

- In the 2013 Legislative Session, the sales tax was imposed on digital products. This provision would make the taxation of those digital products consistent with what was understood to be the intent of 2013 legislation and with the estimates that were made for that legislation and were included in the end-of-session budget. Therefore there is no revenue impact.

Source: Minnesota Department of Revenue
Tax Research Division
www.revenue.state.mn.us/research_stats/Pages/Revenue-Analyses.aspx

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H.F. 3122 / S.F. 2693: Federal Update Provisions by Category
($000s)

	FY 2014	FY 2015	FY 2016	FY 2017
Education-Related Provisions				
For Education Savings Accounts, Increase Contribution Limit and Other Changes (1/1/13)	($100)	($100)	($100)	($100)
Exclusion of Employer-Provided Education Assistance (1/1/13)	($4,400)	($4,500)	($4,600)	($4,700)
For the Student Loan Interest Deduction, Increase the Income Phaseout, Other Changes (1/1/13)	($5,900)	($6,000)	($6,100)	($6,400)
Exclusion for Awards under the National Health Service Corps Scholarship Program and Similar Programs (1/1/13)	($600)	($600)	($600)	($600)
Deduction for Educator Expenses (tax year 2013)	($1,100)	$0	$0	$0
Deduction for Qualified Tuition and Related Expenses (tax year 2013)	($5,600)	$0	$0	$0
Subtotal: Education-Related Provisions	**($17,700)**	**($11,200)**	**($11,400)**	**($11,800)**
Restricted Deductions for High-Income Taxpayers (1/1/14)				
Increase the Income Thresholds for the Limitation on Itemized Deductions	$0	($20,600)	($22,400)	($24,400)
Increase the Income Thresholds for the Phaseout of Personal Exemptions	$0	($8,600)	($9,500)	($10,400)
Subtotal: Restricted Deductions for High-Income Taxpayers	**$0**	**($29,200)**	**($31,900)**	**($34,800)**
Marriage Penalty Relief				
Increased the Standard Deduction for Married Filers (1/1/14)	$0	($111,000)	($74,700)	($77,600)
For the Working Family Credit, Increase the Phaseout Range for Married-Joint Filers by $5,000 (1/1/13)	($17,800)	($18,000)	($18,100)	($18,300)
Subtotal: Marriage Penalty Relief	**($17,800)**	**($129,000)**	**($92,800)**	**($95,900)**

	FY 2014	FY 2015	FY 2016	FY 2017
Homeownership Provisions (tax year 2013)				
Exclusion of Discharge of Indebtedness Income on Principal Residence	($7,200)	$0	$0	$0
Premiums for Mortgage Insurance Deductible as Qualified Residence Interest	($3,900)	$0	$0	$0
Subtotal: Homeownership Provisions	**($11,100)**	**$0**	**$0**	**$0**
Charitable Contribution Provisions (tax year 2013)				
Special Rule for Contributions of Qualified Conservation Property	($320)	($30)	($20)	($10)
Tax-Free IRA Distributions, up to $100,000, to Certain Public Charities for Individuals Age 70 ½ and Older	($2,520)	($120)	($120)	($120)
Enhanced Charitable Contribution Deduction for Food Inventory by Other Than C Corporations	($700)	$0	$0	$0
Basis Adjustment to S Corporation Stock for Charitable Contributions of Property	($380)	($30)	($30)	($30)
Subtotal: Charitable Contribution Provisions	**($3,920)**	**($180)**	**($170)**	**($160)**
Other Provisions Affecting Individuals				
Exclusion for Employer-Provided Adoption Assistance (1/1/13)	($400)	($400)	($400)	($400)
Parity for Exclusion of Employer-Provided Mass Transit and Parking Benefits (tax year 2013)	(Negl.)	$0	$0	$0
Subtotal: Other Provisions Affecting Individuals	**($400)**	**($400)**	**($400)**	**($400)**

	FY 2014	FY 2015	FY 2016	FY 2017
Business and Investment Provisions (tax year 2013)				
15-Year Straight-Line Depreciation for Qualified Leasehold, Restaurant, and Retail Improvements				
Individual Income Tax	($400)	($300)	($300)	($300)
Corporate Franchise Tax	($650)	($500)	($500)	($500)
7-Year Recovery Period for Certain Motorsports Racing Track Facilities				
Corporate Franchise Tax	($60)	($10)	($5)	($5)
Accelerated Depreciation for Business Property on Indian Reservations				
Individual Income Tax	($500)	($100)	$50	$120
Corporate Franchise Tax	($435)	($80)	$45	$100
Election to Expense Mine Safety Equipment				
Corporate Franchise Tax	($20)	Negl.	Negl.	Negl.
Special Expensing Rules for Certain Film and Television Productions				
Individual Income Tax	($450)	$55	$40	$35
Corporate Franchise Tax	($340)	$45	$35	$25
Treatment of Certain Payments to Controlling Exempt Organizations for the Unrelated Business Income Tax				
Corporate Franchise Tax	($150)	$0	$0	$0
Treatment of Certain Dividends of Regulated Investment Companies	($400)	$0	$0	$0
Exception under Subpart F for Active Financing Income				
Corporate Franchise Tax	($1,700)	$0	$0	$0
Increase from 50% to 100% the Exclusion of Gain on Certain Small Business Stock (acquired 1/1/13–12/31/13)*	$0	$0	$0	$0
Reduction in Recognition Period for S Corporation Built-In Gains Tax				
Corporate Franchise Tax	($700)	$0	$0	$0
Business and Investment Provisions				
Individual Income Tax	**($1,750)**	**($345)**	**($210)**	**($145)**
Corporate Franchise Tax	**($4,055)**	**($545)**	**($425)**	**($380)**
Subtotal	**($5,805)**	**($890)**	**($635)**	**($525)**

* Revenue loss occurs after FY 2017.

	FY 2014	FY 2015	FY 2016	FY 2017
All Provisions				
Individual Income Tax	**($52,670)**	**($170,325)**	**($136,880)**	**($143,205)**
Corporate Franchise Tax	**($4,055)**	**($545)**	**($425)**	**($380)**
General Fund Total	**($56,725)**	**($170,870)**	**($137,305)**	**($143,585)**

2014 GOVERNOR'S BILL SUMMARY

MINNESOTA • REVENUE

Bill Date: March 12, 2014
Summary Date: March 12, 2014

Appeals and Legal Services Division
600 North Robert Street
Saint Paul, Minnesota 55146-2220

ARTICLE 1: INCOME TAX RELIEF

Overview

Minnesota income and franchise tax is based on "federal taxable income" (FTI) for regular Minnesota tax purposes; "federal alternative minimum taxable income" (AMTI) for Minnesota alternative minimum taxable income; "federal adjusted gross income" (FAGI) for household income used for the Minnesota dependent care credit, education credit, and property tax refund; and "earned income" for the working family credit.

As a result of 2013 Laws of Minnesota chapter 3, current Minnesota law references these federal items as amended through January 3, 2013 only for tax year 2012. Current Minnesota law references these federal items as amended through April 14, 2011 for tax year 2013 and future years.

This bill proposes to change all reference dates to the Internal Revenue Code ("the Code") to December 31, 2013 for tax year 2013 and future years.

In doing so, this bill adopts federal changes to the Code for tax year 2013, including exclusions from income for tuition expenses, k-12 educator expenses, mortgage forgiveness on principal residence, and IRA distributions made directly to charity, as well as changes to the calculation of the working family credit. It also adopts a variety of changes to depreciation schedules for selected industries such as film and television production, restaurant and retail property, and Indian reservation property.

This bill adopts all federal changes to the Code for tax year 2014 and future years, including the increased standard deduction for married filers, the new income thresholds for the limitation of itemized deductions and phase out of personal exemptions and changes to the calculation of the dependent care credit. While these changes are effective federally for 2013, they will not be adopted by Minnesota until tax year 2014.

The significant substantive changes made to the Code and adopted in this bill were made in the American Taxpayer Relief Act of 2012 (Public Law 112-240), which was signed into law by President Obama on January 2, 2013.

Section 1. Federal update to Minnesota administrative provisions. Amends Minn. Stat. § 289A.02, subd. 7, to adopt references to the federal administrative provisions found in chapter 289A as defined in the Code as amended through December 31, 2013. This section is effective the day following final enactment.

Section 2. Minnesota net income. Amends Minn. Stat. § 290.01, subd. 19, to adopt a number of changes made to federal taxable income since April 14, 2011. Some of these federal changes were adopted by Congress for tax years 2012 and 2013, some for tax year 2012 and future years, and some for tax year 2013 and future years. Minnesota previously adopted most of these federal changes as they relate to tax year 2012. This section addresses the Minnesota tax treatment of these federal changes for tax year 2013 and future years.

- **Items adopted by Congress for tax years 2012 and 2013 that are now being adopted by Minnesota for tax year 2013 include:**

The deduction in the computation of adjusted gross income of up to $4,000 of qualified tuition for higher education.

The deduction in the computation of adjusted gross income of up to $250 of classroom expenses paid by a K-12 grade educator.

The exclusion for discharge of principal residence acquisition indebtedness income.

The ability to claim an itemized deduction for mortgage insurance premiums on a principal residence.

The ability of taxpayers age 70½ or older to exclude from gross income up to $100,000 of their distributions from an Individual Retirement Account that are made directly to charitable organizations. The amount excluded is not allowed as a charitable deduction.

The increase in the maximum exclusion for employer provided commuter vehicle or transit pass fringe benefits from $125 per month to $245 per month to obtain parity with the exclusion of fringe benefits parking benefits.

The ability of U.S. shareholders with a 10% or greater interest in a controlled banking or financing corporation to defer recognition of active income earned by the corporation but not distributed to the shareholder was extended to taxable years beginning before January 1, 2014.

The ability to expense the first $15 million of production costs of films and television shows was extended through 2013.

The ability to depreciate leasehold improvements and qualified restaurant property, including new restaurant property and improvements to retail property over 15 years (rather than 39 years) was extended to property placed in service through 2013.

The ability to use accelerated depreciation of qualified Indian reservation property was extended to property placed in service through 2013.

The basis adjustment to S corporation stock when the S corporation donates appreciated property, which is equal to the tax basis of the property rather than the fair market value, was extended to contributions made in taxable years beginning through 2013.

The ability to depreciate certain motorsports entertainment complex property over 7 years rather than 15 or 39 years was extended to property placed in service through 2013.

The ability to expense 50% of the cost of advanced mine safety equipment was extended to equipment placed in service through 2013.

The special rules to encourage charitable contributions of real property for conservation purposes were extended to contributions made in tax years beginning in 2013.

The ability of entities other than C corporations to take a deduction for contributions to a charity equal to the cost basis plus one-half the normal price mark-up of food inventory was extended to contributions made through 2013**.**

The percentage exclusion for gain from the sale of qualified small business stock sold by an individual was increased from 50% to 100% for original issue C corporation stock acquired in 2013. The exclusion applies to certain stock purchased in businesses with less than $50 million of assets that is held for at least five years.

The preferential treatment of dividends of regulated investments companies under which dividends paid to foreign shareholders are exempt to the same extent the dividends are exempt if the income had been earned directly by the foreign shareholder.

The special rule limiting payments from controlled subsidiaries of exempt organizations that are subject to the unrelated business income tax to the amount in excess of allowable payments under arm's length transactions rules. This applies only if there is a binding written contract between the entities that was in effect on August 17, 2006.

- **Items adopted by Congress for tax year 2013 and future years that are now being adopted by Minnesota for tax year 2013 and future years include:**

The increased contribution limits from $500 per year to $2,000 per year, allowing use of education savings accounts for elementary and secondary school expenses and other changes to Coverdell education savings accounts.

The changes to the subtraction allowed in computing adjusted gross income for student loan interest paid. The requirement that the interest be paid during the first 60 months that interest was due was eliminated. The income level for which the ability to take the subtraction starts phasing out changed from $40,000 (or $60,000 for joint filers) of modified adjusted gross income to $60,000 (or $125,000 for joint filers).

The exclusion from gross income for amounts paid or expenses incurred (up to $5,250 annually) by an employer in providing educational assistance to employees under an educational assistance program.

The exclusion from income for awards under the National Health Service Corps scholarship program and related awards for health-care professionals.

The exclusion for employer provided adoption assistance. For 2014, the maximum amount of employer provided adoption assistance that can be excluded from income is $13,190. The exclusion begins to phase out for taxpayers with modified adjusted gross income over $197,880.

- **Items adopted by Congress for tax year 2013 and future years that are now being adopted by Minnesota for tax year 2014 and future years include:**

The increased income threshold for the limitation of itemized deductions for higher income taxpayers. Congress enacted a provision that requires the limitation of certain itemized deductions for taxpayers with adjusted income in excess of $250,000 ($300,000 married filing joint). Adoption of this provision will replace a similar phase out of itemized deductions that Minnesota adopted in 2012 for taxpayers with adjusted income in excess of $178,150 ($89,075 married filing separate).

The increased income threshold for phase out of personal exemptions for higher income taxpayers. Congress enacted a provision that requires the phase out of personal exemptions for taxpayers with adjusted income in excess of $250,000 ($300,000 married filing joint). Adoption of this provision will replace a similar phase out of exemptions that Minnesota adopted in 2012 for taxpayers with adjusted income in excess of $178,150 (single) or $267,200 (married joint).

The increased standard deduction for married filers. The standard deduction for married taxpayers filing joint returns was increased from 166% of the standard deduction of a single taxpayer to 200% of the standard deduction of a single taxpayer (or half those amounts for married taxpayers filing separate returns.). For 2014, this will increase the standard deduction of married filing joint taxpayers to $12,400 from $10,350.

Section 2 also removes obsolete language related to tax year 2012 that was added by 2013 Laws of Minnesota chapter 3. This language is obsolete because this bill will adopt all of the changes to tax year 2012 that were made in that Law. Minnesota’s treatment of federal 179 expensing and bonus depreciation are not changed.

All of the provisions in this section are effective for Minnesota purposes at the same time as they are effective for federal purposes.

Section 3. Additions to federal taxable income of individuals. Amends Minn. Stat. § 290.01, subd. 19a, by adding the language necessary to properly calculate the addition for the limitation of itemized deductions for tax year 2013.

This section also amends the state addition for the limitation of itemized deductions and the phase out of personal exemptions so that those additions do not apply to tax year 2014 and later years. For tax year 2014 and later years, Minnesota will conform to the federal income thresholds.

Finally, this section removes obsolete language used in calculating the addition for federally deducted state taxes. This section is effective for tax year 2013 and future years.

Section 4. Subtractions to federal taxable income of individuals. Amends Minn. Stat. § 290.01, subd. 19b, to allow subtractions to remove the effects of the federal phase out of itemized deductions and personal exemptions for 2013. Minnesota will not conform to federal phase out provisions for 2013. This section is effective for tax year 2013 and future years.

Section 5. State itemized deduction. Amends Minn. Stat. § 290.01, by adding a new subdivision that defines “state itemized deductions.” This definition is used in calculating the addition of itemized deductions of income and sales tax under section 290.01, subd. 19a (2). This section is effective for tax year 2013 and future years.

Section 6. Update of individual alternative taxable income, wages, built in gains for S corporations and credits. Amends Minn. Stat. § 290.01, subd. 31, to incorporate federal changes that impact Minnesota tax provisions that are not part of the computation of regular tax. For alternative minimum tax the new changes to federal adjusted gross income incorporated into the definition of net income will apply to the computation of Minnesota alternative taxable income. Similarly, the definition of "income" for purposes of the Minnesota dependent care credit and the education credit will adopt the same federal changes.

Section 6, along with section 8 and the repealed language in section 14, make the following changes to Minnesota's dependent care credit for tax year 2014 and future years:

- Minnesota's formula used to calculate the dependent care credit will be the federal formula.
    - For one qualifying individual, the maximum credit is raised from $720 to $1,050. The credit is based on 35% of up to $3,000 of eligible expenses, up from 30% of up to $2,400 of eligible expenses.
    - For two qualifying individuals, the maximum credit is raised from $1,440 to $2,100. The credit is based on 35% of up to $6,000 eligible expenses, up from 30% of up to $4,800 of eligible expenses.
    - The credit begins to phase out by 1% for each $2,000 of income in excess of adjusted gross income of $15,000 (up from current law's $10,000).
- Minnesota's credit will remain refundable. The federal credit is not refundable.
- Minnesota's credit will be available to Minnesota taxpayers at every income level. Under current law, the credit is not available if household income exceeds $38,570.
- Minnesota retains its provisions for family day care providers and newborns.

The definition of "wages" for purposes of Minnesota wage withholding changes to make employer provided tuition assistance and adoption assistance exempt from withholding.

Finally, the recognition period for the tax on built in gains of an S corporation recognized in 2013 changes from 10 years to 5 years.

The changes in this section are effective at the same time as they are effective for federal purposes, except the change to the dependent care credit is effective for tax year 2014 and future years.

Section 7. Income for calculating the child and dependent care and k-12 education credits. Amends Minn. Stat. § 290.067, subd. 2a, to clarify the addition to household income for tuition expenses deducted federally in determining adjusted gross income. This section is effective for tax year 2013 and future years.

Section 8. Child and dependent care credit. Amends Minn. Stat. § 290.067 by adding a new subdivision that defines section 21 of the Code as the version of that section in effect on June 1, 2001. The impacts of this change are included in the description of the Minnesota dependent care credit in subdivision 6. This section is effective for tax year 2013 and future years.

Section 9. Enhanced working family credit. Amends Minn. Stat. § 290.0671, subd. 1, by increasing the income level at which the credit begins to phase out. Increases the income level at which the credit beings to phase out for married joint filers by $5,000 in tax years 2013 to 2017, with the $5,000 amount indexed for inflation from 2009, so that the additional phaseout amount for tax year 2013 is $5,340. Increases the income level at which the credit begins to phase out for married joint filers by $3,000 in tax year 2018 and following years, with the $3,000 amount indexed for inflation from 2008. This will match the working family credit phaseout to the federal earned income tax credit phase out. This section is effective for tax year 2013 and future years.

Section 10. Household income for education credit. Amends Minn. Stat. § 290.0674, subd. 2, by changing the citation to "household income" in the dependent care credit, which is being repealed in section 15 and replacing it with a citation to the definition of "household income" used for the Property Tax Refund. This section is effective for tax year 2014 and future years.

Section 11. Federal update of property tax refund. Amends Minn. Stat. § 290A.03, subd. 15, to adopt all federal changes that affect household income, which uses the definition of federal adjusted gross income as a starting point. Also removes obsolete language related to tax year 2012. This section is effective retroactively for refunds based on property taxes payable after December 31, 2013 and rent paid after December 31, 2012.

Section 12. Tax and penalty relief for individuals. An uncodified provision prohibits the commissioner from assessing tax or reducing refunds of individual taxpayers who correctly computed their tax or refund using the version of the Code in effect before the enactment of this article. This section is effective the day following final enactment.

Section 13. Appropriation. Appropriates $1,101,000 to the Department of Revenue for fiscal years 2014 and 2015 for the additional costs of administering the retroactive changes to 2013 income taxes. This section is effective the day following final enactment.

Section 14. Repealer. This section repeals Minn. Stat. § 290.067, subd. 2, the income limits on qualifying for the refundable Minnesota dependent care credit. Also, since household income is no longer relevant, the definition of household income in subdivision 2a and the indexing of household income in subdivision 2b are also repealed. This section is effective for tax year 2014 and future years.

ARTICLE 2: SALES AND USE TAX RELIEF

Section. 1. Repair and maintenance labor; warehousing and storage services. Amends Minn. Stat. § 297A.61, subd. 3, by deleting paragraph (m). This effectively repeals: (1) sales and use tax on repair and maintenance labor for commercial, industrial, electronic, and precision equipment; and (2) sales and use tax on warehousing and storage services. This section is effective for sales and purchases made after March 31, 2014.

Section 2. Digital audio and digital audiovisual works. Amends Minn. Stat. § 297A.67, by adding a new subdivision to exempt charges for live or pre-recorded presentations where participants access the presentation as a digital audio or digital audiovisual work. The in-person admission to the live presentation must not be subject to sales tax and there must be interaction allowed among participants and the presenter. This exemption is allowed by the Streamlined Sales and Use Tax Agreement as a product-based exemption. This section is effective for sales and purchases made after June 30, 2014.

Sections 3 and 4. Telecommunications, cable television and direct satellite machinery and equipment. Adds subdivision 35a to Minn. Stat. § 297A.68. This exempts certain machinery and equipment purchased by telecommunications, cable television and direct satellite service providers. This effectively repeals the 2013 law change that imposed sales and use tax on this machinery and equipment. A cross-reference in § 297A.68, subdivision 5, is also amended. This section is effective for sales and purchases made after March 31, 2014.

Section 5. Exemption for Local Government Purchases. Amends Minn. Stat. § 297A.70, subd. 2, to expand the definition of local government from cities, counties, and towns, to also include special districts, special taxing districts and any local government instrumentalities as defined by section 471.59, including those with a joint powers board. This section is effective for sales and purchases made after June 30, 2014.

Section 6. Threshold for fund-raising sales exemption. Amends Minn. Stat. § 297A.70, subd. 13, to update the annual exemption threshold for fund-raising sales by nonprofit groups from $10,000 to $20,000. The current threshold was set in 1985. This amendment also provides that only the sales that exceed the $20,000 threshold are subject to sales tax. Current law retroactively taxes all sales once the threshold is exceeded. This section is effective for sales and purchases made after June 30, 2014.

Section 7. Definition of fund-raising events. Amends Minn. Stat. § 297A.70, subd. 14, the exemption for fund-raising events sponsored by nonprofit groups, by defining "fund-raising events." For purposes of the 24-day limitation, "fund-raising events" means community, social, and entertainment events such as bake sales, galas, and carnivals. "Fund-raising events" does not include activities that are carried out in the normal course of business, such as operating a gift shop, bookstore, or restaurant. This section is effective for sales and purchases made after June 30, 2014.

Section 8. Repealer. Repeals the definition of self-storage service found at Minn. Stat. § 297A.61, subd. 57. This definition is no longer necessary because the sales and use tax on warehousing storage services is effectively repealed in section 1. This section is effective for sales and purchases made after March 31, 2014.

ARTICLE 3. ESTATE AND GIFT TAX REFORM

Section 1. Filing requirement for estate tax. Amends Minn. Stat. § 289A.10, subd. 1, to increase the filing requirement from the current $1,000,000 of assets to $1,200,000 for 2014 estates; $1,400,000 for 2015 estates; $1,600,000 for 2016 estates; $1,800,000 for 2017 estates; and $2,000,000 for 2018 estates. This section is effective for decedents dying after December 31, 2013.

Section 2. Obsolete extension to file estate tax. Amends Minn. Stat. § 289A.18, subd. 3, to remove obsolete language that allowed additional time to file a Minnesota estate tax return for decedents dying in 2010. This section is effective the day following final enactment.

Section 3. Federal update of estate tax. Amends Minn. Stat. § 291.005, subd. 1, to update the reference to the Code from January, 3, 2013 to March 1, 2014. Sections of the Code are used in Chapter 291 to describe how the Minnesota estate tax is calculated. However, none of the Code sections used have changed during the January, 2013 to March, 2014 time period. The definition of "Minnesota adjusted taxable estate" is also moved from Minn. Stat. § 291.005 to a new Minn. Stat. § 291.016, described in section 4 below. Both changes are effective for estates of decedents dying after December 31, 2013.

Section 4. Definition of Minnesota taxable estate. Adds a new Minn. Stat. § 291.016, which replaces the Minn. Stat. § 291.005 definition of "Minnesota adjusted taxable estate" with the new definition "Minnesota taxable estate." The only substantive difference between the two definitions is the old definition allowed a deduction of up to $4,000,000 for qualified farm or business property. The new definition allows a maximum deduction ranging from $3,000,000 to $3,800,000 depending on the decedent's year of death. This reduction is made up for by an increase in the general estate tax exclusion in the next section. This section is effective for estates of decedents dying after December 31, 2013.

Section 5. Calculation of Minnesota estate tax. Amends Minn. Stat. § 291.03, by replacing the current method of computing the Minnesota tax, which was based on pre-2001 federal law. Under this method, the estate calculated two sums based on pre-2001 federal law and paid the lesser amount. In effect, under this method, the marginal Minnesota estate rate on about the first $94,000 over the $1,000,000 exclusion amount was 41%. After the first $94,000, the marginal rate fell back to a 5.6% rate and then gradually increased to a maximum 16% rate for estates over $10,000,000.

Under the new rate structure the exclusion amount is raised by $200,000 each year, ending with an exclusion of $2,000,000 in 2018. Marginal rates in 2014 range from 9% to 16%. Marginal rates in 2015 through 2018 range from 10% to 16%.

Due to the elimination of the 41% bubble rate and the increased exclusion amount, even though the bottom rates start at 9% and 10%, every estate will see a net tax decrease with the largest decreases being at the low end of estates paying the tax. The new method is effective for estates of decedents dying after December 31, 2013.

Section 6. Estate tax elections. Adds a new subdivision to Minn. Stat. § 291.03. The new subdivision clarifies that in general, Minnesota allows estate tax elections available under the Code only if a federal return is filed and the election is made federally. It does, however, allow a Qualified Terminal Interest Trust (QTIP) election on the Minnesota return; a federal election is not required. This section is effective for estates of decedents dying after December 31, 2013.

Section 7. Credit for estate taxes paid to another state. Adds a new section Minn. Stat.§ 291.031, which provides a new home for the credit for taxes paid to another state for nonresident on flow-through assets with Minnesota situs. The credit was in Minn. Stat. § 291.03, subd. 1c, is moved without change to Minn. Stat. § 291.031, and is repealed in section 8. This section is effective for estates of decedents dying after December 31, 2013.

Section 8. Repealer. Repeals Chapter 292 (Minnesota Gift Tax) enacted in the 2013 legislative session. The repeal is effective retroactively for gifts made after June 30, 2013.

This section also repeals Minn. Stat. § 291.03, subd. 1b, which was a QTIP-election provision that only applied to 2010 estates. This repeal is effective for estates of decedents dying after December 31, 2013.

This section also repeals Minn. Stat. § 291.03, subd. 1, which provided nonresidents a credit for estate tax paid to another state. This repeal has no substantive effect since the credit is moved to a new part of Chapter 291 in section 7. This repeal is effective for estates of decedents dying after December 31, 2013.

ARTICLE 4: ANGEL TAX CREDIT

Section 1. Funding for credits extended; additional exception to certificate 3 year holding period. Amends Minn. Stat. § 116J.8737, subd. 5**,** to increase credits available for 2014 from $12 million to $27 million. Also provides $15 million in credits for 2015 and $15 million in credits for 2016, providing funding for years before the new 2017 sunset provided in section 2. Adds an exception for the death of the qualified investor to the requirement that an investment must held for at least 3 years. This section is effective the day following final enactment and applies regardless of the taxable year in which the credit was originally allowed.

Section 2. Sunset. Amends Minn. Stat. § 116J.8737, subd. 12, to extend the expiration date of the credit from after tax year 2015 to 2017. This amendment leaves in effect reporting requirements as necessary to enforce credit revocations and provide program information to the legislature. This section is effective the day following final enactment.

ARTICLE 5: MISCELLANEOUS

Section 1. Business production property. Amends Minn. Stat. § 272.03, subd. 1, by providing that the exterior shell of a structure used in the production of biofuels, wine, beer, distilled beverages, and dairy products, is not included in the definition of real property, even if the shell has structural, insulation, or temperature control functions. The exterior shell of the structure, however, is real property if it is used primarily for storage of ingredients or materials used in the production of biofuels, wine, beer, distilled beverages, and dairy products, or the storage of those finished products. This section is effective beginning with assessment year 2015.

Section 2. Transition aid for business production property. Adds a new section, Minn. Stat. § 477A.18, providing transition aid to cities and towns that lose 5% or more of their net tax capacity due to the change in the definition of "real property" in section 1. For aid beginning in 2016, qualifying cities and towns will receive full replacement aid for the decrease in net tax capacity. The transition aid then phases out over the next four years, with aid payments stepped down by 20% each year. No aids are payable in 2021 and thereafter. This section is effective beginning with assessment year 2015.

Section 3. Budget reserve increase. An uncodified provision requires that by June 30, 2014, based on the February 2014 budget and economic forecast adjusted for any revenue or expenditure changes enacted in the 2014 legislative session, the commissioner of management and budget shall transfer the projected general fund budgetary balance for the current biennium to the budget reserve in the general fund. This section is effective the day following final enactment.